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Development cooperation with middle-income countries

Report of the Secretary-General

Summary

Middle-income countries are facing a number of challenges in the three dimensions of sustainable development. While economic growth in these countries has remained robust, the pace has nevertheless slowed owing to both less favourable external conditions and domestic fragilities. This has also led to more challenging conditions in labour markets, besides pronounced structural employment problems in a number of middle-income countries. While the middle-income countries as a group have registered remarkable progress towards the Millennium Development Goals, they are facing significant challenges in terms of sustainable development. Achieving economic, social and environmentally sustainable development requires coordinated policy efforts, and a number of middle-income countries have initiated measures that can be seen as leading examples.

Development cooperation between the United Nations system and middle-income countries is as varied as it is important for the achievement of sustainable development in these countries. Upstream cooperation activities and, in particular, capacity-building have gained in significance, as have concerns about environmental sustainability. Future initiatives need to take into account country-specific needs as well as the trade-off between creating a more coherent policy background for development cooperation of the United Nations system with middle-income countries and preserving sufficient independence to meet with the specific mandates of individual agencies.

* A/70/150.

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I. Introduction

1. In its resolution 68/222, the General Assembly requested the Secretary-General to submit a report on development cooperation with middle-income countries at its seventieth session. The present report responds to this request.

2. Similarly to the previous report on this matter,[1] the present report tentatively identifies middle-income countries as those with a per capita gross national income (GNI) of between $1,045 and $12,736, following the World Bank classification using the Atlas method as of 1 July 2015. In 2015, there are 104 countries in this category.[2] The World Bank distinguishes this group of countries further, classifying those countries with a per capita GNI of less than $4,125 as lower-middle-income countries. It does not recognize the United Nations category of least developed countries but instead identifies low-income countries as one category in terms of its lending policies. In this sense, middle-income countries are defined as an intermediate category in terms of per capita income alone, unlike the category of least developed countries, which also considers economic and environmental vulnerability and the level of human development.

II. Major challenges for the development of middle-income countries

A. Recent macroeconomic and development trends

1. Economic growth

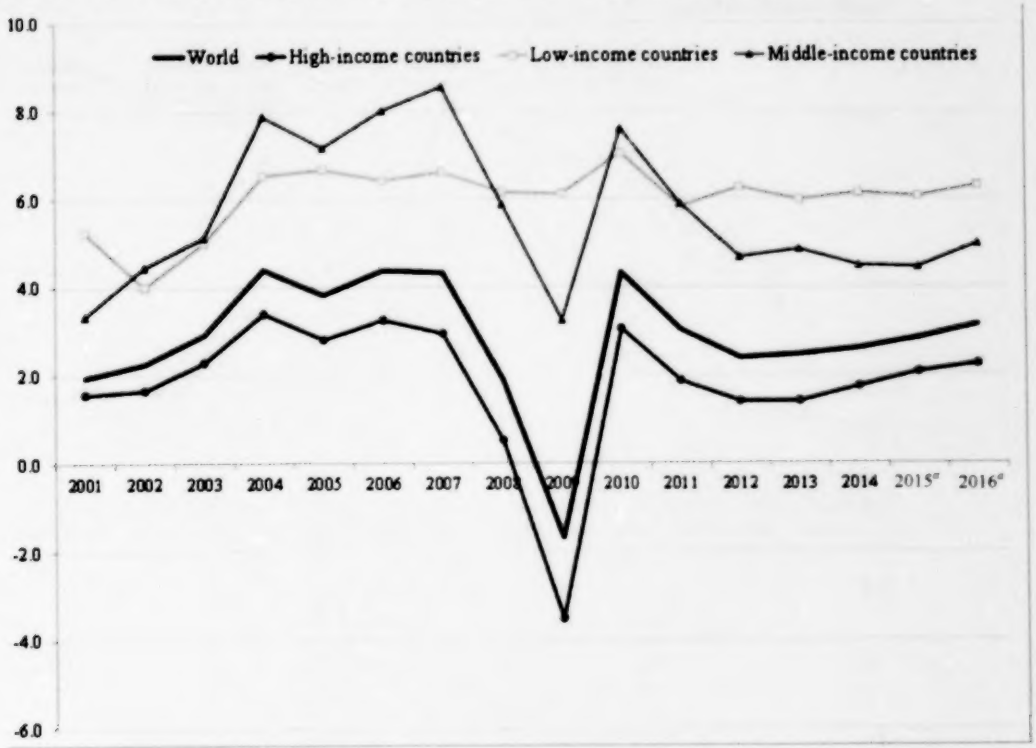
3. Economic strength in middle-income countries has deteriorated since 2011, although their aggregate growth rate has remained above the world average. Between 2012 and 2014, average economic growth in these countries slowed to 4.7 per cent from above 8.0 per cent in 2006-2007 and is expected to remain at a similar pace in the near term owing to less favourable external conditions, including lower commodity prices, and significant domestic fragilities (see figure I).[3] Overall, the economic outlook for middle-income countries, which represent more than a third of global gross domestic product (GDP), seems to be more challenging in comparison with the previous decade, amid significant heterogeneity across regions and countries.

[1] A/68/265.

[2] The number of middle-income countries quoted in the text refers to their status at the respective time.

[3] For a detailed analysis of the global economic outlook, see *World Economic Situation and Prospects 2015* (United Nations publication, Sales No. E.15.II.C.2) and *World Economic Situation and Prospects: Update as of mid-2015*.

Figure I
Annual real GDP growth by country groups, 2001-2016 (percentage change)

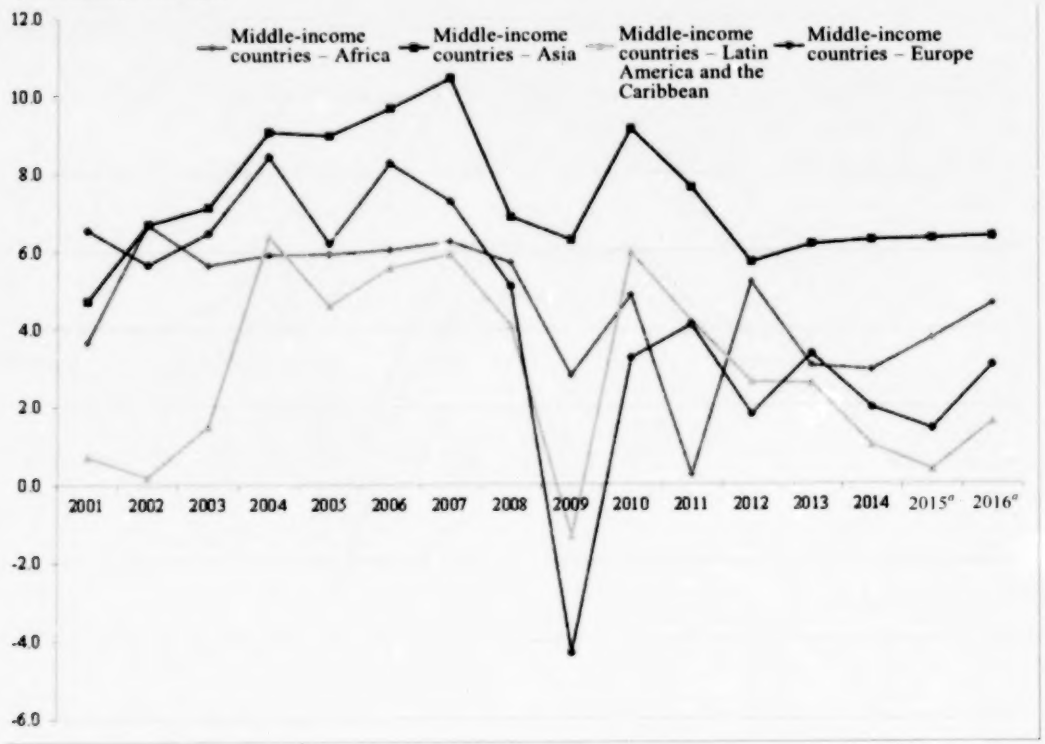


Source: Department of Economic and Social Affairs.
[a] United Nations forecasts.

4. Among regions, middle-income countries in Asia have been able to maintain the highest, and more stable, growth rates, about 6.0 per cent on average in the past three years, owing to robust domestic demand, strong exports and the increased diversification of their economies (see figure II). By contrast, middle-income countries from Latin America and the Caribbean have seen the largest decline in growth in recent years, amid lower commodity prices, a sharp decline in investment and, in some cases, institutional weaknesses. These countries grew by only 1.0 per cent in 2014 and the economic slowdown is expected to continue further in 2015, particularly in countries such as Argentina, Brazil and Venezuela (Bolivarian Republic of). Similarly, more challenging external conditions, in addition to increased geopolitical tensions and domestic vulnerabilities, have also prompted economic conditions to deteriorate in middle-income countries in Europe, particularly in Ukraine. Despite a large heterogeneity, growth of middle-income countries in Africa has also slowed down, from 5.8 per cent in 2012 to only 3.0 per cent in 2013 and 2.9 per cent in 2014, on the back of lower commodity prices, conflicts and political instabilities and subdued external demand. Per capita GDP growth has also lost pace in most middle-income countries in recent years, with the exception of Asia.

Figure II

Annual real GDP growth of middle-income countries by region, 2001-2016 (percentage change)



Source: Department of Economic and Social Affairs.

[a] United Nations forecasts.

2. Employment and labour markets

5. Since the global financial crisis of 2008-2009, several labour market indicators in middle-income countries have improved noticeably. For instance, unemployment rates showed a significant downward trend, employment rates increased steadily to record highs, and countries such as Brazil, Indonesia and Turkey posted higher employment rates in 2014 than in 2007. These developments were major factors also in explaining the progress in some social indicators such as poverty reduction. Nevertheless, labour market indicators in middle-income countries have somewhat worsened in recent years, owing to the deterioration of economic conditions. As a result, employment growth has declined substantially, and unemployment reversed its previous trend and started to increase moderately. However, middle-income countries face various structural challenges with respect to their labour markets, including high youth unemployment, notable gender gaps and informality.

3. Inflation

6. Inflation in middle-income countries remains stable and moderate, amid lower oil prices and moderate economic growth. In 2014, inflation in these countries

reached 6.8 per cent, 0.6 percentage points lower than in 2013 and similar to the average inflation rate in the previous decade of 6.6 per cent. Still, inflation figures in these countries are relatively high in comparison with the world average of 3.1 per cent in 2014 and with the situation in high-income countries, where inflation rates are low and deflation risks remain. Despite this aggregate picture, there are significant differences across regions and countries. For instance, inflation in middle-income countries in Latin America and the Caribbean increased from 8.3 per cent in 2013 to 11.6 per cent in 2014, mostly as a result of high inflation rates in some South American countries such as Argentina and Venezuela (Bolivarian Republic of). By contrast, inflation in middle-income countries in Asia declined markedly from 7.2 in 2013 to 4.7 in 2014, especially in countries such as India, Sri Lanka and Viet Nam.

4. International trade

7. The overall external demand for middle-income countries improved somewhat in 2013-2014, but it is still less conducive to their export growth compared with the pre-crisis period owing to factors such as lower commodity prices for commodity-exporting countries, the slow recovery in developed economies and the global slowdown in investment activities. The share of middle-income countries both in world exports and in world imports continued to increase in 2013-2014, reaching around 25.7 per cent, which underlines their relevance in the world economy. However, those developments were largely led by middle-income countries in Asia, as exports from Latin America stagnated in real terms in 2013 and grew only very modestly in 2014, while exports from Africa declined drastically in 2013, in part because of falling oil exports from Libya, and failed to recover in 2014. In many middle-income countries, export product concentration indices remain high, which highlights their vulnerability to external shocks. While in China, the index[4] is close to zero, reflecting high diversification of the export base, in several African middle-income economies, the index is close to one. Many middle-income countries also have high export market concentration indices, thus depending on a small number of trading partners. For many countries, there was little in the way of positive dynamics to increase the diversity of their export base, as the export product concentration index in 2012 remained at approximately the same level as in the mid-1990s.

5. Capital inflows

8. Capital inflows into middle-income countries have shown a downward trend in recent years, amid weakening economic conditions, lower commodity prices, increased geopolitical tensions in some regions and expectations of a normalization of monetary policy in the United States of America. In addition, cross-border bank lending continues to be subdued in middle-income countries in Europe, but these banking flows maintain a strong pace in Asia. Meanwhile, foreign direct investment (FDI), the most stable and relevant source of external financing in middle-income countries, has also declined. For example, in 2014, FDI into Latin America and the Caribbean declined by 16 per cent.[5] On the other hand, some middle-income countries have become a more important source of capital outflows, particularly of FDI, reflecting their growing size and increasing savings in the world economy. In the outlook, more significant changes in investor sentiment related to global

[4] Herfindahl-Hirschman product concentration index.

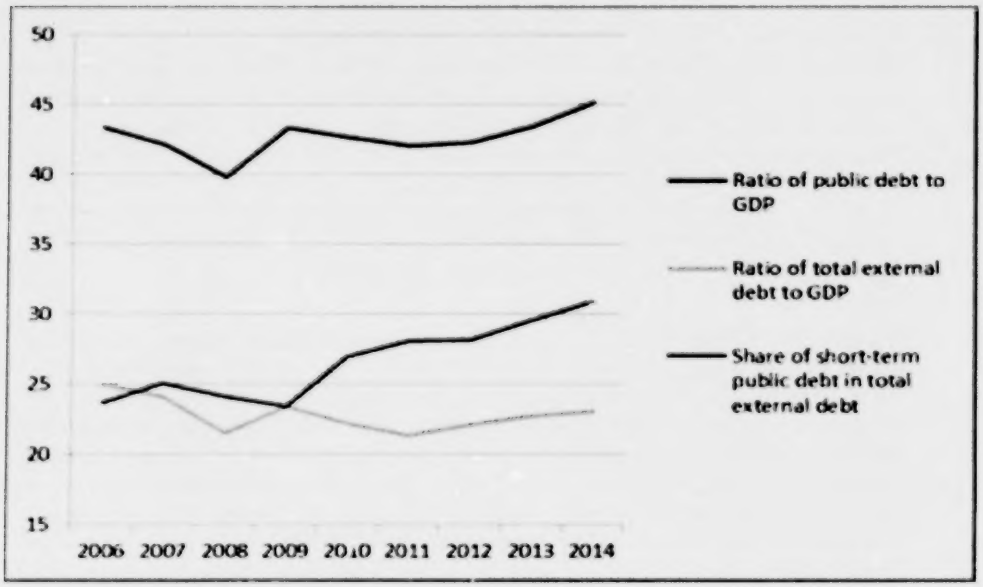
[5] Economic Commission for Latin America and the Caribbean (2015), *Foreign Direct Investment in Latin America and the Caribbean 2014*, Santiago.

liquidity conditions and the economic prospects of middle-income countries may provoke larger retrenchments of capital inflows, with significant consequences for private investment, exchange rates, bond yields and equity prices. In addition, many middle-income countries remain excessively dependent on remittance inflows, which may also become volatile periodically.

6. Sustainability of public debt

9. Generally, middle-income countries have much lower public debt levels than the advanced economies, with their public debt currently standing at around 45.1 per cent of GDP (see figure III).[6] Public and publicly guaranteed debt service for those countries as a group was equivalent to about 0.8 per cent of GNI in 2013.[7] These conditions provide for some fiscal space to bolster growth in many middle-income countries, if needed. However, there are certain risks to the sustainability of this debt, emanating from the relatively high share of short-term public debt, volatility in the appetite of investors for sovereign borrowing in emerging markets and the upcoming normalization of monetary policy by the United States Federal Reserve. The prospective rise of interest rates in the United States may increase the cost of debt refinancing for middle-income countries, which could be lifted further by currency depreciation pressures. The impact would be especially severe for the countries with large short-term debt refinancing needs.

Figure III
Selected debt indicators of middle-income countries (percentage)



Source: International Monetary Fund.

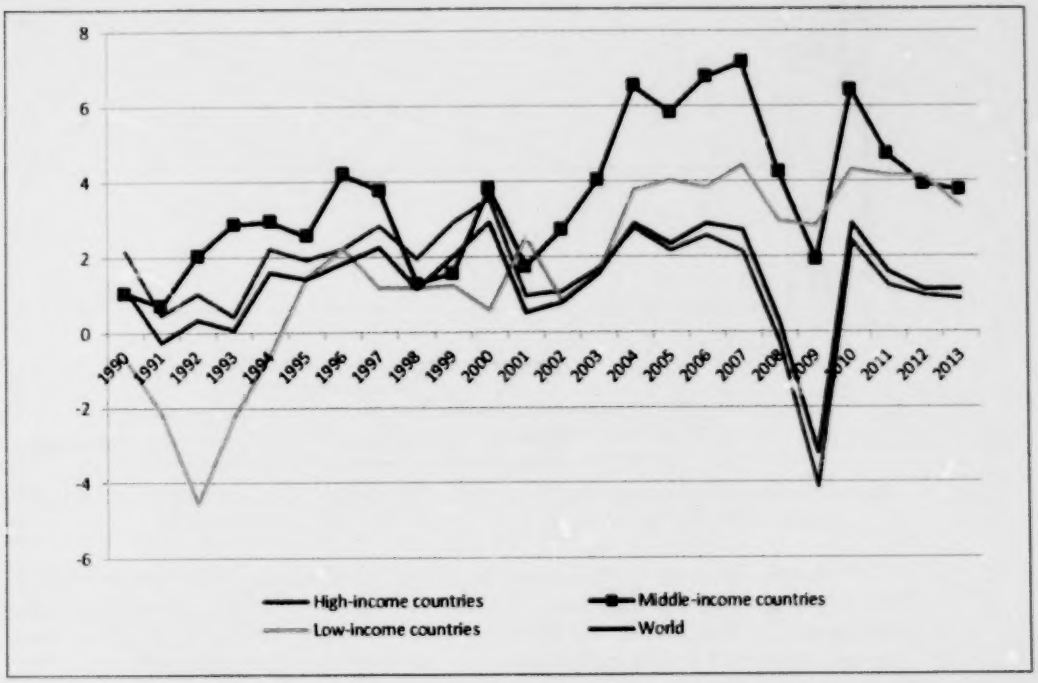
[6] Calculations by Department of Economic and Social Affairs staff, based on International Monetary Fund data.

[7] World Bank, http://data.worldbank.org/income-level/MIC.

B. Sustainable development challenges in the middle-income countries

10. Middle-income countries have made significant progress in achieving the Millennium Development Goals, particularly in reducing poverty. The poverty headcount ratio in middle-income countries — at $1.25 a day — decreased from 43.5 per cent in 1990 to 13.7 per cent in 2011, lifting over 900 million people out of poverty and underscoring the critical role of the middle-income countries in global poverty reduction efforts. A key driver in reducing poverty has been the faster-than-average economic growth in middle-income countries (see figure IV) relative to other income groups, with around two thirds of the poverty reduction in middle-income countries having occurred in China. However, despite impressive growth and progress with regard to the Millennium Development Goals, the middle-income countries continue to face significant sustainable development challenges.

Figure IV
Annual real GDP per capita growth, by income group, 1990-2013 (percentage)



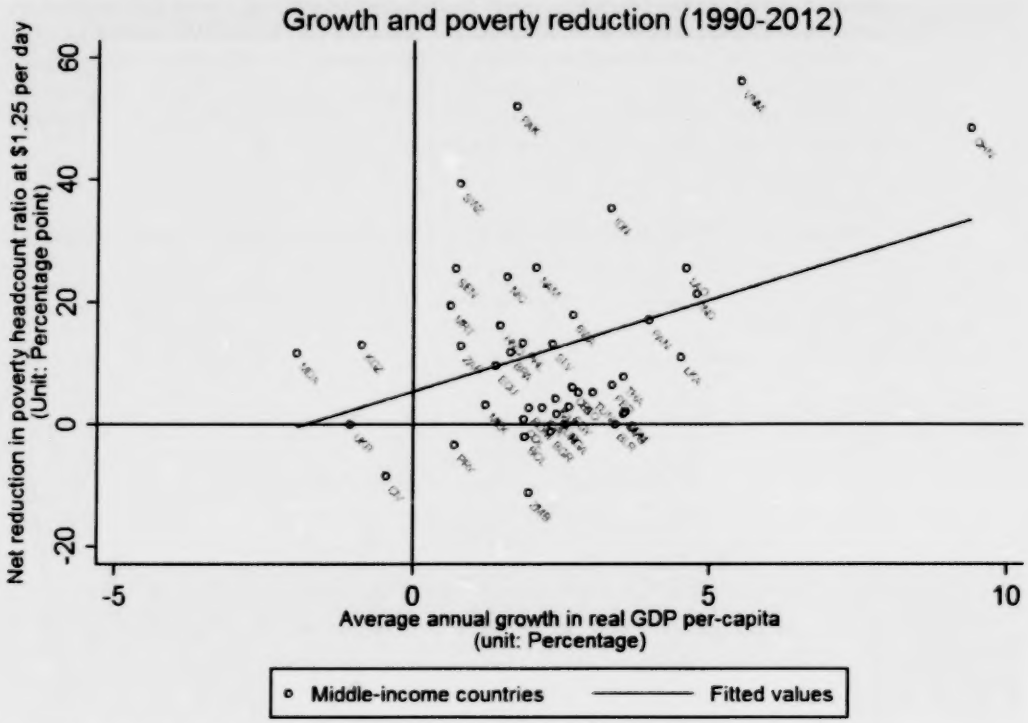
Source: Department of Economic and Social Affairs calculation, using data from the World Development Indicators of the World Bank.

1. Growth, poverty, inequality and environmental challenges in the middle-income countries

11. While the middle-income countries included many of the fastest-growing economies of the world, the per capita income in 21 middle-income countries grew by an average of 1 per cent or less during 1990-2013, with 7 among them — mostly in Eastern Europe and Central Asia — registering a decline in per capita income. Poverty reduction trends in middle-income countries exhibit similar divergences

(see figure V). Despite a general decline in poverty rates in middle-income countries, the poverty headcount ratio actually increased in a few middle-income countries — particularly some with high dependence on natural resource rents — between 1990 and 2012.

Figure V
Growth and poverty reduction in middle-income countries, 1990-2012



Source: Department of Economic and Social Affairs calculation, using data from the World Development Indicators of the World Bank.

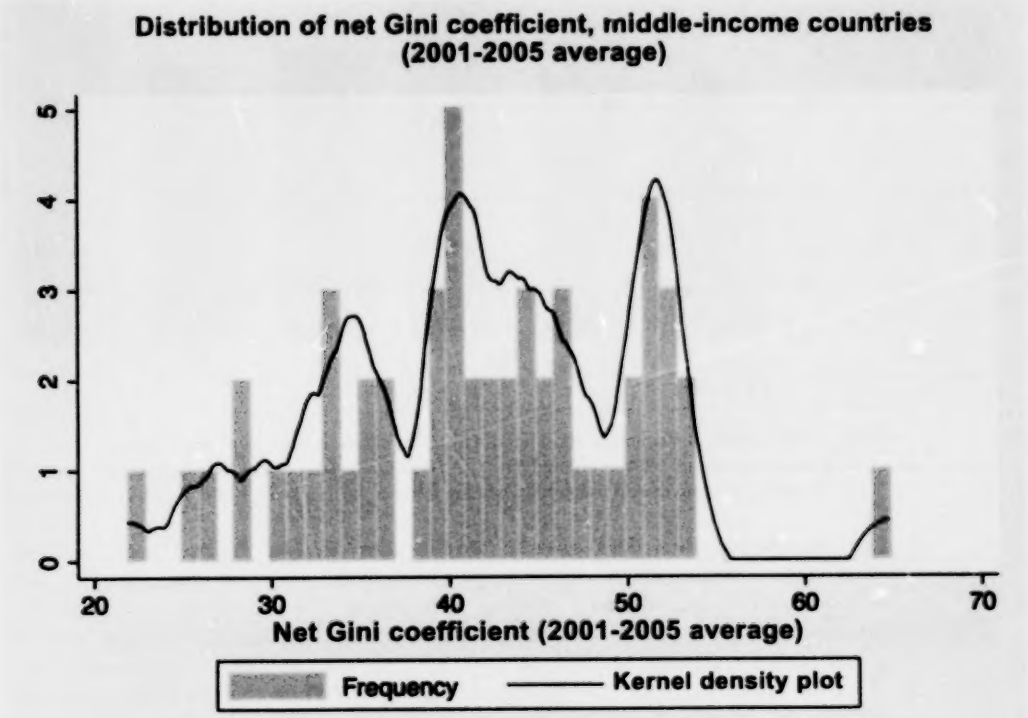
12. Income inequality remains generally higher in middle-income countries than in other income groups. During 2001-2005, the Gini index of 54 middle-income countries averaged 41.9, compared to the average Gini of 34.5 in a sample of 54 non-middle-income countries.[8] Among these middle-income countries, 33 experienced increases in income inequality during 1986-2005, 13 experienced decreases, and 8 maintained the same level. There are also considerable divergences in the income inequality levels among the middle-income countries (see figure VI). For example, in 2011, South Africa registered a Gini index of 65.0, while Belarus had a Gini index of 26.5.[9] The level of income inequality also varies significantly across regions, with Latin America and the Caribbean and sub-Saharan Africa showing persistently high levels of inequality (see figure VII). Another important dimension is the high level of

[8] Frederick Solt, 2009, "The Standardized World Income Inequality Database", http://hdl.handle.net/1902.1/11992, Harvard Dataverse, V14.

[9] World Development Indicators, the World Bank.

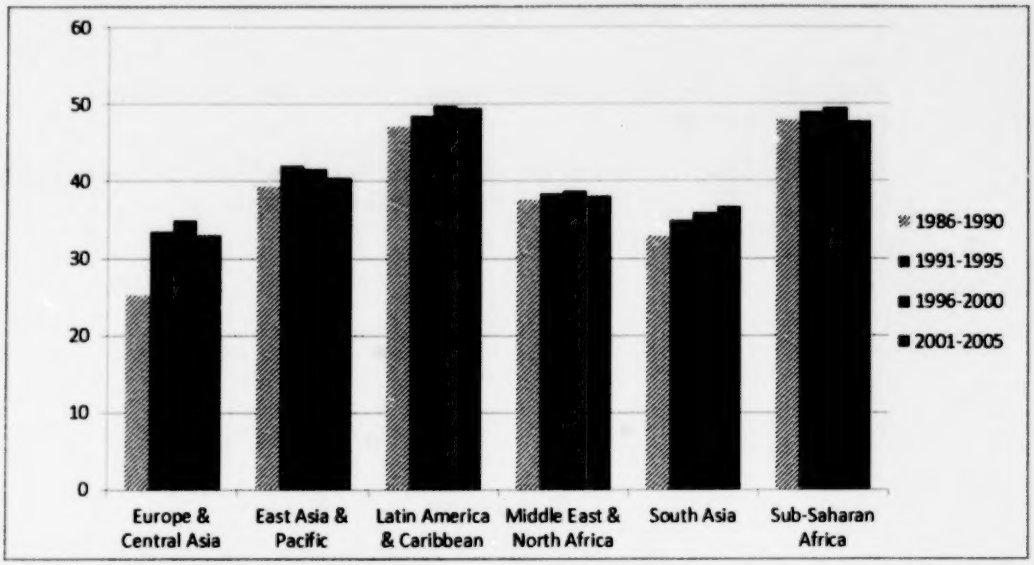
gender-based inequality. For example, while middle-income countries have made significant progress in terms of gender equality in education during the past two decades, young women in middle-income countries are far more likely than young men to be either unemployed or lacking in education or training.

Figure VI
Distribution of Gini index in middle-income countries, 2001-2005 average (number of countries)



Source: Department of Economic and Social Affairs calculation, based on Solt (2009).

Figure VII
Income inequality in middle-income countries, by region, 1986-2005 (net Gini coefficient)[a]

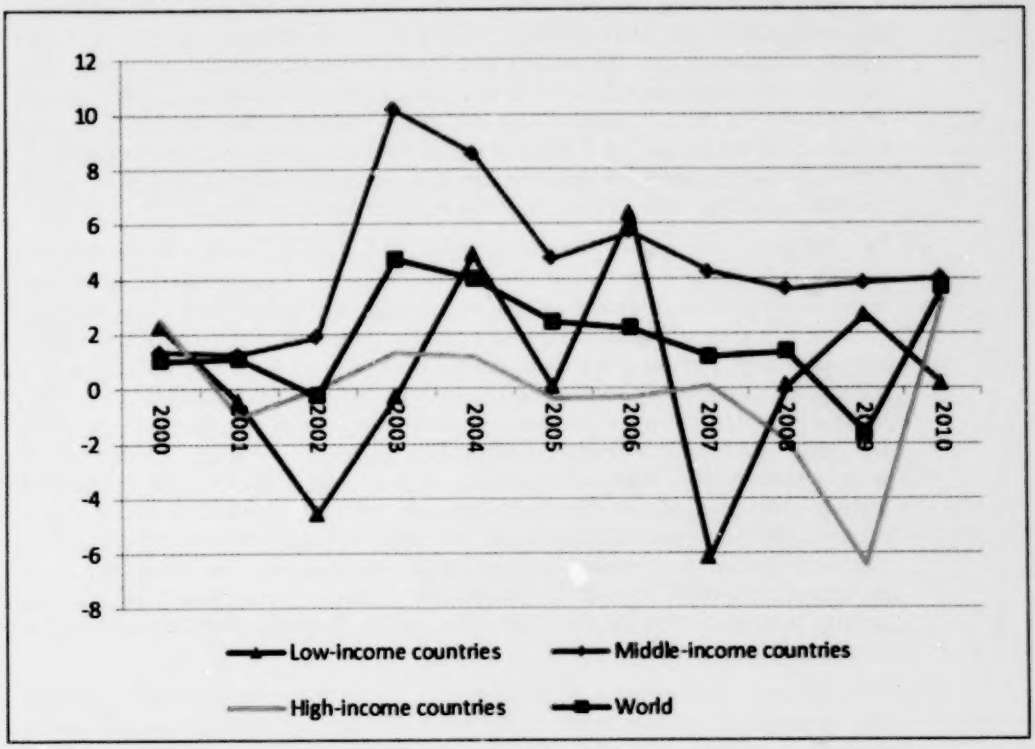


Source: Department of Economic and Social Affairs calculation, based on Solt (2009).

[a] The regional figures are unweighted averages of net Gini coefficients across sampled countries, that is Gini coefficients after taxes and transfers. Data are derived from a sample of 54 middle-income countries.

13. Meanwhile, high GDP growth rates in many middle-income countries have often been accompanied by rising greenhouse gas emission levels and environmental degradation, posing challenges to long-term sustainable development. As a group, middle-income countries contributed 49.2 per cent of global carbon emissions in 2010, up from 32.2 per cent in 1990. Of the world's top 15 carbon emitters, 7 are middle-income countries. While the per capita emission level in the middle-income country group is still significantly lower than in the high-income country group, it has been rising faster than in any other group since the 2000s (see figure VIII).

Figure VIII
Annual growth rate of per capita carbon dioxide emissions, 2000-2010 (percentage)



Source: Statistics Division calculation, using data from the Carbon Dioxide Information Analysis Center.

14. Undermanaged rural-urban migration, the influx of migrants and the rapid growth of informal settlements and slums in urban centres pose yet another sustainable development challenge to the middle-income countries. The urbanization rate in middle-income countries increased from 36.1 per cent to 50 per cent during 1990-2013, constraining the capacity of the cities to provide such amenities as access to water and sanitation facilities, and waste and sewage management. In 2012, about a quarter of the urban population of middle-income countries still did not have access to improved sanitation facilities. With 96 per cent of the future population growth in developing countries expected to happen in urban areas,[10] managing urbanization will remain a major sustainable development challenge for the middle-income countries. In this context, accurate, consistent and timely demographic data will be essential for policies on urbanization and migration.

2. Lessons for achieving inclusive growth and sustainable development

15. Recognizing the complex linkages between inequality, inclusive growth and environmental sustainability, the United Nations Open Working Group on the Sustainable Development Goals has proposed a set of interrelated sustainable

[10] World Bank (2013). Global Monitoring Report 2013: Rural-Urban Dynamics and the Millennium Development Goals, Washington, D.C.

development goals. In particular, the goals of promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (goal 8); building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation (goal 9); reducing inequality within and among countries (goal 10); making cities and human settlements inclusive, safe, resilient and sustainable (goal 11); and taking urgent action to combat climate change and its impacts (goal 13) are critically important for the middle-income countries, as the group is still home to over 70 per cent of the world's extreme poor, facing daunting sustainable development challenges that are exacerbated by a high level of inequality, rapid urbanization and environmental challenges.

16. While a few middle-income countries managed to reduce inequality and achieve inclusive growth during the past two decades, a large number of middle-income countries registered high growth without any reduction in inequality, or even with a rise in inequality. Middle-income countries that managed to reduce inequality also typically achieved a decline in their poverty rates, although poverty reduction and inequality have gone in opposite directions in a number of middle-income countries. Poverty reduction, like economic growth, may therefore also have a complex relationship with income inequality. An analysis of the policies of a small set of middle-income countries that managed to address inequality, while achieving high growth rates, shows that they generally pursued interrelated policies that: (a) promoted structural transformation, enhanced productivity and created a large number of relatively productive and higher-wage jobs; (b) enhanced social protection and redistribution mechanisms that directly contributed to reducing poverty and inequality; and (c) increased public spending that fostered human development and environmental sustainability.

17. Turkey's experience of inclusive growth in the 2000s, for example, highlights the importance of structural transformation policies that increased labour productivity and created a large number of decent jobs. Expansion of employment in industrial and service sectors, including in rural areas where industrial activities were historically absent, played an important role in fostering growth and reducing inequality. Most of the middle-income countries that experienced episodes of inclusive growth during 1986-2005 also achieved higher than average labour productivity growth. Among these countries, Chile,[11] Malaysia, Thailand and Turkey achieved productivity growth that was at least twice as high as the global average, showing that these countries made strong investments in human capital, which is key to achieving inclusive growth.

18. Social protection and human development policies, for example, played an important role in reducing inequality and fostering inclusive growth in Brazil. A large-scale "zero hunger" programme was introduced in Brazil in 2003, targeting over 170 million people who lived below the poverty line. The programme included a conditional cash transfer programme, which provides a monthly income transfer to poor families to reduce hunger but also to increase school attendance rates among poor children. Evidence shows that redistributive policies can play an important role in reducing inequality and promoting inclusive growth. After the Asian financial crisis in 1997, Malaysia and Thailand effectively used direct taxes (as opposed to indirect taxes, such as sales tax or value added tax) to support redistribution programmes.

[11] Chile was classified as a middle-income country prior to 2013.

19. The experience of China, on the other hand, shows that middle-income countries do have the space to design and implement policies aimed at striking a delicate balance between the imperatives of economic growth and environmental sustainability. In recent years, China has introduced binding targets on curbing emission levels and reducing the carbon and energy intensity of economic activities. In addition, market instruments are used to complement these regulatory measures. Besides other factors, such as changes in the output mix and technological progress, these efforts led to a drop of 28.6 per cent in carbon intensity — carbon emissions per unit of GDP — in China during 2005-2013.[12] Similarly, South Africa has set targets for achieving entirely free basic water and sanitation for extremely poor households in urban areas. With strong monitoring mechanisms, public resources were allocated to decentralized authorities, providing 3.47 million and 1.84 million poor South Africans with free access to water and sanitation services, respectively, in 2012.[13]

III. Cooperation of the United Nations system with middle-income countries

A. Major achievements in development cooperation with middle-income countries

20. The United Nations pursues development cooperation with the middle-income countries in a wide range of areas, as is illustrated by the breadth of the Millennium Development Goal agenda and the sustainable development goals currently under consideration. There is also a diverse set of instruments for development cooperation, including assistance with policy formulation and implementation, advocacy and capacity development.

21. To better assess the development cooperation of the United Nations with middle-income countries, the present report uses as a reference point data that were collected through a survey of programme country Governments.[14] The survey was conducted by the Department of Economic and Social Affairs from August to October 2014, and this report analyses the answers that middle-income countries provided specifically to a subset of questions of the wider survey. Of 107 middle-income countries, 53 (50 per cent) replied to the survey questions.

22. The survey data show that 55 per cent of the responding middle-income countries have been engaged in coordinating United Nations activities for five years or longer. The activities of the United Nations were seen as closely or very closely aligned with the individual country development needs and priorities by all except one responding middle-income country. All except three respondents agreed or somewhat agreed that the United Nations is focused on assisting the respective country in achieving the internationally agreed development goals, notably the Millennium Development Goals.

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[12] China: National Development and Reform Commission (2014). China's Policies and Actions on Climate Change.

[13] Gore, Fiona and others (2014). Investing in water and sanitation: increasing access, reducing inequalities. Special report for the Sanitation and Water for All high-level meeting. Geneva: World Health Organization.

[14] Quadrennial comprehensive policy review, monitoring survey of programme countries 2014, December 2014.

23. Gender equality, governance and public administration, health, environment and natural resources, and sustainable development policies were cited by the largest number of respondents as the areas in which the contribution of the United Nations had been especially significant. From a forward-looking perspective, the respondents from middle-income countries indicated that the most important areas for United Nations assistance in the next four years would be environment and natural resources, sustainable development policies, poverty reduction, governance and public administration, and health.

24. Of the responding middle-income countries, 65 per cent indicated that they provide development cooperation to other countries. In addition, 60 per cent stated that the United Nations system had undertaken activities to support their country in providing development cooperation. These support activities more especially covered gender equality, social protection and governance and public administration. At the same time, the areas in which the United Nations should provide support for the provision of development cooperation included industry, trade and investment, sustainable development policies, and peace building and early recovery.

25. Regarding the parallel work of different United Nations agencies, 62 per cent of the responding middle-income countries strongly agreed or somewhat agreed that there is a clear division of labour among the activities of United Nations agencies in the respective country. However, 32 per cent of the respondents strongly disagreed or somewhat disagreed with this statement. At the same time, a large majority of respondents, 89 per cent, stated that United Nations agencies compete with each other to varying degrees in the respective country for donor funding. As to whether competition among United Nations agencies is healthy and the respective Government welcomes it, 46 per cent of the respondents disagreed to varying degrees, while 40 per cent agreed to varying degrees.

26. The present report has also benefited from inputs by a number of United Nations agencies regarding their involvement in development cooperation with middle-income countries, as summarized below.

27. Much of the work of the United Nations country teams, led by the United Nations Development Programme (UNDP), in middle-income countries, particularly in the Europe and Central Asia region, focuses on the elimination of disparities, the promotion of equity and social inclusion, assistance in response to human rights violations, capacity development and advocacy. The focus of the new United Nations Development Assistance Framework process in middle-income countries in this region shifted from development assistance provision to partnership and cooperation; it is presented as a platform for better cooperation and true partnership with Governments, ensuring strengthened government ownership and greater government contributions (through cost-sharing) to development programmes in their countries. Thus, in the Europe and Central Asia region, the United Nations has focused on linking the global dialogue on sustainable development goals to regional and national efforts, concentrating especially on bringing the new development agenda to the middle-income country context. In sub-Saharan Africa, 12 out of the 31 national consultations on the post-2015 development agenda took place in middle-income countries, and the United Nations Development Group regional team for Africa has developed a strategy of support to middle-income countries in Africa. The facilitation of knowledge exchange regarding middle-income countries is a

significant area of engagement and an important part and modality of UNDP programming for South-South cooperation. UNDP has facilitated and will continue to facilitate exchanges of the extensive knowledge that middle-income countries are generating on poverty eradication and sustainable development, in particular through the establishment of global policy centres.

28. Another focus area of UNDP support to middle-income countries is capacity development and institutional strengthening for emerging economies as South-South cooperation providers. An important aspect of the Programme's work with middle-income countries has been the implementation of the new strategic partnership agenda since 2009, which is seeking to achieve a number of key objectives, such as intensifying South-South cooperation and partnerships with emerging economies to accelerate progress on development goals. A number of bilateral agreements have been signed in this context, including partnership agreements to strengthen cooperation on regional and global issues, such as South-South and triangular cooperation. These include Brazil, China, India, Indonesia, Mexico, South Africa and Turkey.

29. The United Nations Industrial Development Organization (UNIDO) has facilitated a number of activities in middle-income countries. To enhance the quality of public policies, UNIDO carried out, in partnership with the German Agency for International Cooperation, project "EQuIP — Enhancing the Quality of Industrial Policies", to support policymakers in middle-income countries in the formulation and design of evidence-based strategies for inclusive and sustainable industrial development. In March 2015, a high-level seminar was hosted by the Economic Commission for Latin America and the Caribbean under the title of "Improving the Quality of Industrial Policy (EQuIP)". In a follow-up to this event, Colombia is funding the first phase of an institutional capacity-building programme that uses EQuIP tools to develop industrial policy. UNIDO organized the first regional round table on inclusive and sustainable industrial development in March 2015 in Buenos Aires. In terms of environmental and sustainable development, UNIDO assists Mexico with compliance with commitments under the Montreal Protocol, which has allowed Mexico to become the first Latin American country to completely close the production of chlorofluorocarbons and methyl bromide, anticipating the deadline of 2015 stipulated in the Protocol.

30. UNIDO has also focused on assisting Governments in climate change mitigation efforts by providing technical and capacity-development assistance. It has supported the efforts of the Government of Lebanon to sustain economic resilience in rural areas affected by the impact of regional crises. Its technical assistance has concentrated on helping small and medium-sized enterprises to enhance their productive capacities, competitiveness and access to markets in a variety of industrial sectors through technology upgrading and transfer, management and market-oriented capacity development, and business mentoring. In Egypt, UNIDO is working on the development of industrial clusters in strategic sectors to promote the development of small and medium-sized enterprises and youth employment and on a new industrial policy vision for the country. UNIDO provides technical assistance to accelerate the uptake of energy efficiency in key industrial sectors in Egypt, Iran (Islamic Republic of) and the Philippines by setting up voluntary energy agreements with industrial sectors, providing a framework for national energy management standards, assisting in capacity-building through training, developing targets, providing benchmarks and identifying technology improvement options for high-

energy-intensive industrial sectors. UNIDO is also assisting the Government of Nigeria in implementing its Vision 20:2020 and the Transformational Agenda, the objective being to develop policies and measures to improve competitiveness and diversification in the non-oil-related sectors of the economy. With the aim of promoting industrial efficiency improvement in South Africa, UNIDO assisted the South African Department of Energy in developing industry tools and technical support measures and in designing the regulation on energy management planning. UNIDO also facilitated an international conference on industrial development in middle-income countries, held in Minsk on 23 and 24 April 2015.

31. For the United Nations Children's Fund (UNICEF), addressing child poverty and inequality continues to be the focus of engagement in middle-income countries, as most of the children living in poverty globally are found in those countries. This number continues to increase as more and more countries reach middle-income status. Persisting poverty, child and maternal mortality, undernutrition and stunting, together with issues related to urbanization, adolescent development and non-communicable diseases, are some of the challenges faced by middle-income countries. UNICEF supports the countries in addressing disparities and focuses on the most disadvantaged and vulnerable families and children. Its partnerships in these countries include programme delivery, upstream policy support, knowledge transfer and technical advice. UNICEF has also assisted countries in implementing more effective social inclusion policies through a range of initiatives, including social protection schemes and cash transfer programmes. For example, in Zambia, UNICEF helped the Government to plan the expansion of the social cash transfer programme.

32. Another main modality of UNICEF engagement has been knowledge brokering of best practices to achieve changes for excluded children. UNICEF has created tools to strengthen the identification of barriers and bottlenecks in reaching marginalized children and increase the frequency of reporting on achievements in overcoming such bottlenecks. One example in this regard is a multi-country initiative to measure public investment in early childhood in several Latin American countries. In China, UNICEF and the Ministry of Finance analysed public financing for migrant children, prompting an increase in central government resources for education among all children in cities, irrespective of residence status. UNICEF also supports middle-income countries' efforts to address global challenges faced by children, such as neglect, abuse and violence against children.

33. The International Labour Organization (ILO) is active in many middle-income countries, generally providing technical support and advisory services through decent work country programmes, which are its main programming frameworks for development assistance to ILO members. They are aligned with national development priorities and increasingly with the United Nations Development Assistance Frameworks. During the 2013-2015 period, the ILO provided development assistance to 92 middle-income countries. In many of these countries, in addition to the implementation of international labour standards, the ILO has placed a particular focus on inclusive growth through the development of national employment policies, jobs and skills development for youth, support for small and medium-sized enterprises, the expansion of social protection floors, the improvement of labour inspection and, increasingly, the formalization of the informal economy.

34. From 2013 to 2015 the Food and Agriculture Organization of the United Nations (FAO) assisted middle-income countries in preparing and approving 51 investment

operations for a total investment of over $4.3 billion, representing 42 per cent of all the investments mobilized over the given period in collaboration with the principal FAO financing partners. The main areas of FAO assistance included agricultural sector analysis and programming, and support to strategies and investment operations in the areas of irrigation, drainage and water management; environment and natural resources management; competitiveness and productivity; rural finance and micro-enterprises; fisheries; agricultural research and extension; forest ecosystems and communities; land management; and climate change adaptation. Support to middle-income countries related mainly to Millennium Development Goals 1 and 7, on poverty reduction and environmental sustainability. In addition, middle-income countries are increasingly engaging FAO to facilitate South-South cooperation. There is a growing demand from Southern countries to share knowledge, experience and technological solutions with other Southern countries that face similar socioeconomic and ecological challenges. Over the years, FAO has been involved in fielding more than 1,900 Southern experts to over 80 host countries. Since 2012, FAO has facilitated over 55 South-South partnership projects, of which 42 have been funded by middle-income countries, totalling $83 million, with the support of Angola, Brazil, China, Mexico, South Africa, Turkey and Venezuela (Bolivarian Republic of).

35. Food insecurity and malnutrition are a serious threat to sustained, inclusive growth in middle-income countries, where the majority of the world's hungry and malnourished currently live. In line with its mandate, the World Food Programme (WFP) has supported 45 middle-income countries by helping them to enhance their national response to food insecurity emergencies, residual and unequally distributed food insecurity, urban hunger and the double burden of malnutrition. WFP operations at the country level focused on strengthening national capacity in the areas of social protection and safety nets, emergency preparedness and response and vulnerability analysis and mapping. WFP provided strategic and technical advice to enhance the targeting, implementation and nutrition sensitivity of safety nets. Its operations have also contributed to improving institutional capacities to prepare and respond to disasters, analyse food insecurity and mainstream evidence-based programming. Furthermore, WFP has increased its efforts to facilitate South-South and triangular knowledge sharing and learning between middle-income countries, mainly through its Centre of Excellence against Hunger in Brasilia. Its general approach has focused on aligning operations with national development plans and assisting middle-income countries in identifying the gaps that hinder progress towards zero hunger and the priority opportunities to respond to these gaps.

36. The United Nations Population Fund (UNFPA) follows a differentiated programming approach, which recognizes the diverse needs of countries in achieving the objectives set at the International Conference on Population and Development and their differing abilities to finance development. The recent operational review of the Conference noted that middle-income countries continue to face inequalities and "development traps", which disproportionately disadvantage the most vulnerable groups, especially poor women and adolescents.[15] Based on extensive analytical work and pilot initiatives, the UNFPA pioneering business model, launched in 2014, strengthens support for Governments in their addressing of priorities, with the emphasis on advocacy and policy dialogue/advice and knowledge management. The UNFPA strategic shift towards upstream engagement

[15] See also A/69/62.

in middle-income countries has entailed greater emphasis on policy analysis, diplomacy and partnerships to invigorate the human rights-based Conference agenda and to ensure sustainability of this agenda through greater national ownership.

37. UNFPA has successfully supported many middle-income countries in adopting evidence-based population and youth policies and strategies; strengthening policy and regulatory frameworks related to universal access to high-quality sexual and reproductive health care and fulfilment of reproductive rights; and a better balancing of policy development and delivery in the empowerment of women and adolescent girls in particular. For example, in Eastern Europe and Central Asia, UNFPA supported the efforts of Kazakhstan to align national legislation and implementation mechanisms with international human rights instruments and policy frameworks, such as the European policy framework for health and well-being. In Latin America and the Caribbean region, UNFPA has contributed to progress in policies and legislation relating to sexual and reproductive health and reproductive rights in a number of countries, such as Bolivia (Plurinational State of), Honduras and Mexico.

38. The United Nations Environment Programme (UNEP) provided support to middle-income countries in accordance with its universal mandate under its 2014-2017 medium-term strategy. It continued to play an important role in assisting middle-income countries to achieve sustainable growth, helping to place environmental considerations at the centre of sustainable development efforts. In the area of climate change, UNEP assists Governments, businesses and individuals to reduce emissions in an effort to minimize the pace and scale of climate change. It has also provided cooperative technical assistance to middle-income countries facing disasters and conflicts. For example, in 2014 UNEP outlined a $56.2 million environmental recovery and reconstruction plan for the Balkan floods, which killed dozens and displaced over 100,000 in Serbia, Croatia and Bosnia and Herzegovina. In the area of ecosystem management, UNEP is cooperating with middle-income countries to achieve biodiversity conservation together with sustainable development. In regard to environmental governance, UNEP conducted a wide range of projects. For example, it has been providing technical assistance designed to ensure that efforts to support the estimated 1.3 million Syrian refugees in Jordan do not harm the environment. Regarding resource efficiency, UNEP conducted scoping missions and has engaged in country dialogues to help design country programmes based on country needs and priorities.

39. By 2020, it is estimated that the vast majority of people affected by HIV will live in middle-income countries.[16] All middle-income countries are covered by the Joint United Nations Programme on HIV/AIDS (UNAIDS) through country and/or regional offices. As the only co-sponsored joint programme of the United Nations, UNAIDS unites the efforts of 11 United Nations organizations and a secretariat. In 2013-2014, UNAIDS focused its efforts on accelerating progress towards the 2015 targets in the 2011 Political Declaration on HIV/AIDS: Intensifying Our Efforts to Eliminate HIV/AIDS, in support of the achievement of Millennium Development Goals 3 to 6 and 8, and on galvanizing global action towards the vision of zero new HIV infections, zero discrimination and zero AIDS-related deaths. In 2013-2014,

[16] Increasing access to HIV treatment in middle-income countries. Key data on prices, regulatory status, tariffs and the intellectual property situation, WHO, 2014, at www.who.int/phi/publications/WHO_Increasing_access_to_HIV_treatment.pdf.

UNAIDS led the compilation of the most extensive data collection available on the HIV epidemic and launched a new initiative to catalyse action by cities to mobilize municipal resources towards the goal of ending the AIDS epidemic in cities. Out of 78 cities that signed the declaration of commitment for action on accelerated city-based responses to HIV, 62 were in middle-income countries. A central initiative of UNAIDS in 2013-2014 was the continuing public-private partnership to eliminate new HIV infections among children and keep their mothers alive (Global Plan). Launched at the 2011 High-level Meeting on AIDS, it prioritizes 22 countries with the highest number of pregnant women living with HIV in need of services, including 9 middle-income countries.[17]

40. UNAIDS continued to advance advocacy for a shift from traditional cooperation to cooperation entailing shared responsibility and global solidarity, including increases in domestic spending. It continues promotion of the strategic investment approach, supporting all countries, including lower- and middle-income countries, in a focus on priority areas, populations and interventions where cost-effective impact and value for money is best achieved and can have multiplier effects across broader health and development issues. Faced with the reality that countries reaching middle-income status may not be able to access the external funding channels previously available to them for their HIV programmes, UNAIDS and other key stakeholders have developed guiding principles for the development of compacts between Governments and donors.

41. In order to help to achieve the Millennium Development Goals and the new sustainable development goals, the World Tourism Organization (UNWTO), as part of its Sustainable Tourism-Eliminating Poverty initiative, has organized seminars to raise awareness and develop capacity with respect to tourism and local economic development and has executed projects designed to create favourable conditions for disadvantaged groups of society to benefit from tourism. UNWTO has built up a portfolio of over 100 such projects, benefiting more than 40 countries, including 23 middle-income countries. Another fundamental pillar of the work of UNWTO is the provision of technical assistance to develop the tourism industry as an engine for socioeconomic growth and poverty alleviation. In middle-income countries, the emphasis is on improving the competitiveness and quality of the tourism sector and related services. Technical assistance to middle-income countries has been provided in areas such as the establishment of coherent frameworks for long-term sustainable tourism development, diversification and tourism development zoning.

B. Engagement of international financial institutions in middle-income countries

42. With a focus on the twin goals of reducing extreme poverty and bolstering shared prosperity, the World Bank Group supports the efforts of middle-income countries to promote growth with inclusion, create jobs, invest in people, improve the private investment climate, strengthen infrastructure, manage urbanization, boost agricultural productivity and address the threat of climate change.

[17] Angola, Cameroon, Côte d'Ivoire, Ghana, Lesotho, Nigeria, South Africa, Swaziland and Zambia.

43. The new World Bank Group strategy and reform process is helping to better support middle-income countries in finding development solutions to these challenges. A key element of the strategy is the systematic country diagnostic, which identifies key challenges and opportunities for each individual country to support the prosperity of the bottom 40 percent of the population as well as to address risks that may threaten macroeconomic, environmental and sociopolitical stability. The systematic country diagnostic informs the new country partnership framework so that the World Bank Group can better tailor policies and programmes to middle-income countries' needs and priorities, providing the basis for the Group to establish a higher-impact, transformational engagement. With the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency operating as one entity, synergies across the institution are leveraged to engage both the private sector and Governments to promote job creation and inclusive and sustainable growth.

44. The World Bank has also adapted its business model to be more responsive, flexible and innovative by, for example, streamlining investment lending processes and exploring how best to increase the use of countries' financial management, procurement and social and environmental systems. It has revised its policy on guarantees to encourage additional private sector investment in middle-income countries and has developed the Programme for Results, a new instrument to help middle-income countries to improve the design and implementation of their own development programmes and achieve lasting results.

45. At the same time, the World Bank Group has undertaken major changes to improve its ability to marshal the best expertise from around the world in order to create, capture and share knowledge, including South-South learning. The new global practices and cross-cutting solution areas will help to enhance the deployment of knowledge and global best practice for the support of policy design and implementation. They will bring new opportunities to sharpen technical expertise, share global knowledge and strengthen partnerships.

46. To better support the efforts of middle-income countries to tackle their development challenges, a number of important changes were approved in 2014 that enable the International Bank for Reconstruction and Development (IBRD) to increase its financial capacity for lending and other forms of financial support, such as guarantees. These measures, along with actions to nurture the revenue growth of IFC and the Multilateral Investment Guarantee Agency, will help to respond to future increases in demand for financial services from middle-income countries. Innovative exposure exchanges to manage exposure concentration complement these efforts by allowing both the Multilateral Investment Guarantee Agency and IBRD to improve the diversification of their portfolios. In addition to financing, the broader menu of financial products and services of the World Bank Group will help to strengthen the debt, asset and risk management capacity of middle-income countries.

47. Partnerships are another important pillar of the World Bank Group strategy, as they can leverage funding from the private sector and mobilize bilateral and multilateral funding for key global public goods. A central part of the IFC strategy is to mobilize capital from third parties to meet clients' needs and increase impact, including through new approaches such as the Asset Management Company and the Managed Co-Lending Portfolio Programme. The Multilateral Investment Guarantee

Agency is growing its guarantee portfolio in support of private sector investment in infrastructure, including through the expansion of its financial products.

48. From 2013 to 2015, the International Monetary Fund (IMF) continued to adapt to the increased importance of middle-income countries and to address their particular challenges. IMF continued to support these countries, in particular through its surveillance of macroeconomic and financial developments and policies (monitoring, risk analysis, consultations and policy advice) and by making its resources temporarily available through various lending facilities based on actual or potential balance of payments needs.

49. IMF has taken steps to strengthen surveillance in a way that supports strong and sustainable growth in a deeply interconnected world. It set up an internal working group on jobs and growth in 2013, which has recommended steps to enhance its effectiveness in helping member countries achieve their goals on growth, job creation and income distribution. The latest triennial surveillance review, completed in September 2014, identified five operational priorities: to integrate and deepen risk and spillover analysis; to mainstream macrofinancial surveillance; to pay more attention to structural policies, including labour market issues; to deliver cohesive and expert policy advice; and to adopt a client-focused approach to surveillance, supported by clear and candid communication. The Managing Director's action plan for strengthening surveillance outlined concrete measures to move forward work in these priority areas, which are also discussed in the updated guidance note for surveillance under article IV consultations of March 2015. A review of the financial sector assessment programme was completed in September 2014.

50. Regarding its lending activities, IMF has continued to review and refine the instruments created after the global financial crisis. The review of the Flexible Credit Line, the Precautionary and Liquidity Line and the Rapid Financing Instrument was completed in June 2014. It highlighted the successful role these instruments have played in helping to insure member countries against external shocks and boost market confidence during periods of heightened risks and, at the same time, sought to enhance the effectiveness and transparency of these instruments. IMF has continued to help Governments protect and even increase social spending, including social assistance, under IMF-supported programmes.

IV. Conclusions and recommendations

51. **Although middle-income countries achieved robust economic expansion during the past decade, outpacing global GDP growth and economic growth in high-income economies (a pattern that continued in 2013-2014), and made notable progress towards meeting the Millennium Development Goal targets, they still face significant development challenges. Despite notable progress in reducing poverty levels in both absolute and relative terms, poverty remains a problem in many middle-income countries. Not all Millennium Development Goal targets have been fully met, and the transition to the post-2015 development agenda and the new targets set by the proposed framework of sustainable development goals presents serious challenges, especially for the countries at the lower end of the middle-income spectrum.**

52. **Those challenges are often country-specific and depend on level of income, structure of the economy, human development indicators, external indebtedness, conditions of access to external finance and some other factors. They may vary from high levels of poverty and low educational attainment to a narrow industrial and export base, rapid ageing or increased urbanization combined with problems of environmental degradation. This broad range of challenges underlines the need for concerted and coherent policy efforts. Often, however, as countries move from a low-income to a middle-income level, the assistance provided to them through the official development assistance framework is significantly reduced, limiting their ability to address those challenges. This highlights the need for the continuing engagement of the international community in middle-income countries, which should be tailored to specific country needs, and the further development cooperation of the United Nations system.**

53. **Given the large share of middle-income countries in terms of the world population and the global economy, achieving the sustainable development goals in their three dimensions will be impossible unless the economic and social problems of those countries are addressed, and their active engagement is enlisted at both the national and the international level. Through its universal mandate, the United Nations system is uniquely placed to provide direct assistance and to act as a mediator in the intercountry cooperation process. As the world moves towards the adoption and implementation of the ambitious post-2015 agenda, middle-income countries should remain a major focus of the United Nations system.**

54. **Many middle-income countries are considered to be caught in the middle-income trap,[18] and accelerating economic growth is one of the challenges facing those countries. However, doing so through traditional industries may lead to irreversible environmental consequences at the global level. Consequently, investing with appropriate emphasis on environmental sustainability should be one of the dimensions of international cooperation, in parallel with reducing carbon dioxide emissions.**

55. **Over the past decade, the nature of development assistance has changed significantly. From delivering direct development assistance, the focus of United Nations system activity has shifted in many cases to providing policy advice and transfer of knowledge. However, according to the survey results highlighted in the present report, there are some instances where a clear division of duties among agencies is lacking, and in some cases different parts of the United Nations system are competing for available funds. Those issues have to be addressed in order to achieve the "delivering as one" approach in the field.**

56. **In January 2012, the executive boards of various United Nations agencies organized a joint meeting, in which representatives of Member States and academia participated, to discuss the role of the United Nations system in middle-income countries in achieving internationally agreed development**

[18] See also the previous report (A/68/265). The notion of the middle-income trap refers to a situation where a middle-income country, after reaching a certain level of per capita income, cannot move much beyond that income level as its per capita economic growth remains mediocre.

goals. The organization on a regular basis of such debates, in which participants would take stock of achievements during the review period and look ahead to future assistance, might facilitate the development of a common strategic framework for dealing with middle-income countries.

57. A more nuanced country classification, going beyond the per capita income criteria and incorporating a range of indicators, such as a human development index, the progress made in meeting the Millennium Development Goals or the successor targets, levels of inequality in terms of both income and non-monetary benefits (including access to social services) and the degree of diversification and skill intensity of the economy, would provide additional guidance for elaborating and implementing country assistance programmes.

58. It should be recognized, however, that many individual agencies of the United Nations system, while planning and carrying out their country activities, consider a wide set of indicators and may employ their own special indices closely linked to the specificities of their mandate. Consequently, an excessive centralization or synchronization of decision-making in terms of choosing the nature of development assistance might become counterproductive. A right balance should therefore be found between the attempt to create a coherent policy background for use by the different parts of the United Nations system in providing assistance to middle-income countries and the need to preserve sufficient policy space for individual agencies, which have built up decades of expertise in their respective fields.

59. As reiterated in previous reports on development cooperation with middle-income countries, it is important for all prospective actors to ensure that such cooperation does not adversely affect the assistance provided to low-income countries, especially the least developed countries, by crowding out financial resources or technical advice. On the contrary, development cooperation should create a positive spillover effect through international trade, investment and access to new technologies. South-South and triangular cooperation frameworks can constitute a productive platform for such spillover effects.

60. In the past, some Member States have expressed an interest in establishing a high-level panel that would track the progress made in delivering United Nations system assistance to middle-income countries and elaborate a more nuanced international agenda for addressing the challenges. Establishment of such a panel or an ad hoc working group, as recommended in previous reports,[19] remains to be discussed.

[19] A/66/220 and A/68/265.